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Financial reports and audited financial statements and reports of the Board of Auditors

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Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has, in accordance with financial regulation 12.11, considered the report of the Board of Auditors on the audited financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2000 (A/56/5/Add.5). The Committee also took up the second report of the Secretary-General on the implementation of the recommendations of the Board of Auditors on the accounts of the United Nations (A/56/66) and its funds and programmes (A/56/66/Add.1) for the biennium ended 31 December 1999. In addition, the Committee had before it the report of the Board of Auditors on the implementation of its recommendations relating to the biennium 1998-1999 (see A/56/132), which was submitted in accordance with paragraph 5 of General Assembly resolution 52/212 B.

2. During its consideration of these reports, the Committee met with the Audit Operations Committee of the Board of Auditors. In accordance with its recommendation contained in paragraph 4 of its previous report (A/55/487), the Committee also met with a representative of a former Board member to consider the report prepared by him before the end of his term.

3. The Committee recalls its previous recommendation that the operations of the Office of the United Nations High Commissioner for Refugees (UNHCR) be audited biennially, and that UNHCR and the Board of Auditors discuss the modalities for planning for biennial audit; the Committee awaits the outcome of the discussion. In this connection, the Committee reiterates that a biennial audit would give UNHCR more time to implement the recommendations of the Board and would also facilitate the timely submission of audit certificates by implementing partners (see A/53/513, paras. 87 and 88).

4. **The Committee notes the progress achieved by UNHCR in reducing by $186.5 million the level of current and prior year expenditure for which subproject monitoring reports had not been received, and trusts that further efforts will be made by UNHCR with regard to a total of $55.5 million which remains outstanding in advances to implementing partners, covering the years 1994 to 2000. The Committee also notes that UNHCR has succeeded in securing independent audit certificates to cover 79 per cent of expenditures incurred by implementing partners during 1999, as compared to 47.6 per cent for the year 1995.**

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5. **The Committee notes with concern that the Board of Auditors has nevertheless qualified its audit opinion on the financial statements of UNHCR based on a limitation of scope in respect of a total of $43.5 million of implementing partner expenditure**. This limitation represents:

(a) The sum of $8.5 million of outstanding advances to implementing partners in respect of 2000, for which subproject monitoring reports had not been received as at June 2001;

(b) The sum of $32 million of year 2000 expenditures, for which the Board identified serious inadequacies in the verification and validation procedures;

(c) The sum of $3 million, for which one country denied UNHCR access to the accounting records of implementing partners.

6. **The Committee points out, in this connection, that the issue of denial of access to the accounting records of implementing partners, on which the Committee had commented in previous reports (see, for example A/53/513, paras. 95 and 96), continues to be a very serious problem with a potential for fraud. The problem should be thoroughly examined by the administration of UNHCR in order to determine whether the failure to provide access to accounting records is due to the lack of capacity of implementing partners or rather reflects the lack of will to cooperate with UNHCR. Should the latter be the case, the Committee requests that the issue be addressed at the highest level of UNHCR administration and, if necessary, be brought to the attention of the Secretary-General**.

7. The findings of the Board with regard to the subproject monitoring reports are contained in paragraphs 22 to 31 of its report (A/56/5/Add.5). The Board found, for example, that officers responsible for field monitoring generally provided no evidence of a regular or systematic check on implementing partner expenditure. Moreover, the Board found that some programme or finance officers did not see approval of expenditure as their responsibility or did not have the time to carry out inspections. **Taking into account the apparent lack of clear understanding on the part of some UNHCR staff of their responsibilities, the Committee expects the administration of UNHCR to address the issue through increased training of staff and a more stringent application of accountability requirements.**

8. **The Committee notes with concern the findings of the Board with regard to the quality of the certificates provided to UNHCR in the year 1999 (see A/56/5/Add.5, paras. 35-37).** For example, the Board examined 91 certificates covering expenditures of $241 million and found the following irregularities in respect of certificates covering a total of $112 million: (a) project auditors had to qualify their audit opinion in respect of expenditure of $18 million on the grounds of insufficient evidence; (b) expenditure totalling $17 million was certified by government accountants rather than by independent auditors; and (c) 25 certificates covering $77 million did not clearly state that funds provided by UNHCR were used in accordance with agreements. On the basis of these findings, the Board concluded that limited assurance could be deduced as to the maintenance of adequate accounting systems and financial records by implementing partners in 2000. **The Committee requests, therefore, that the administration of UNHCR undertake all the necessary measures to improve performance of those country offices where the Board found significant gaps in the extent and quality of audit certificates; the related information should be provided to the Committee in March 2002.**

9. The Board's findings on the Integrated System Project of UNHCR are contained in paragraphs 57 to 92 of its report (A/56/5/Add.5). The Committee is concerned that after some three years and expenditure of $8.7 million against a total budget of $34 million, the Project remains non-operational. **The Committee requests the administration of UNHCR to take immediate steps to address the findings by the Board and to report to the Committee not later than autumn 2002 on actions taken. The Committee also reiterates its request that UNHCR present comprehensive data on the implementation of all information technology projects, including relevant costs (see A/55/487, para. 41).**

10. The Committee notes the Board's finding that UNHCR has yet to establish a reliable system for establishing accurate information on the size and characteristics of the refugee population.

Implementation of the recommendations of the Board of Auditors

11. The Committee notes that some progress has been made in implementing the recommendations of the Board in respect of 15 organizations covered in its report on the implementation of its recommendations relating to the biennium 1998-1999: of the 208 recommendations by the Board, 115 recommendations have been fully implemented, 72 are under implementation, 1 has not been implemented and in respect of 5 recommendations the organizations have not been able to implement the recommendations since they were overtaken by events. **The Committee welcomes the fact that six entities (the United Nations, the United Nations University, the United Nations Children's Fund the United Nations Institute for Training and Research, the United Nations International Drug Control Programme and the United Nations Joint Staff Pension Fund) have substantially improved their implementation rate compared with the biennium 1996-1997 (see A/56/132, para. 9).**

12. The Committee observes that the information contained in paragraphs 10 to 25 of the Board's report (see A/56/132) is also reflected, to a large extent, in the reports of the Secretary-General on the same subject (A/56/66 and Add.1). **The Committee requests, therefore, that the Board concentrate, in its reports on the implementation of its recommendations, on indicating the extent to which such recommendations have been implemented and on their impact. With regard to the Secretary-General's reports on the implementation of the recommendations of the Board, the Committee recommends that those reports focus less on describing how the administration intends to implement the Board's recommendations and instead indicate briefly the actions taken and results achieved.**